

The background of the slide features a warm, orange-hued sunset sky. In the foreground, several saguaro cacti are silhouetted against the bright light of the setting sun. The cacti vary in height and shape, with some having multiple arms. The overall scene is a classic desert landscape.

Prepared for:

***The Defined Contribution and
Retirement Study Committee***

***Informational Presentation on the
Arizona State Retirement System
"Reasons for Pre-retirement Salary
Increases"***

Prepared by:
Arizona State Retirement System

December 13, 2011



Methodology of the Analysis

- ❑ Includes members who had a cumulative increase of 25% or more in average salary of the 3 years prior to retirement when compared to the 3 year period before the final 3 years**
- ❑ Includes members who retired in fiscal years 2009 and 2011**
- ❑ 1,204 members met criteria**
- ❑ 228 employers representing all employer classifications surveyed**



Methodology of the Analysis

- ☐ Received information on 403 members representing 74 employers**
- ☐ Reasons for increases were grouped into like categories**
- ☐ Members can be included in more than one category**



Reasons for Increase

- ❑ Annual/General Increase: 119**
- ❑ Promotion: 119**
- ❑ Termination Pay*: 103**
- ❑ Market Adjustment: 57**
- ❑ Increase in Hours: 32**
- ❑ Cost of Living Adjustment: 30**
- ❑ Performance Pay: 26**

*** Termination Pay: Payout of accrued sick and annual leave at termination or retirement.**



Reasons for Increase **(Cont.)**

- ❑ Additional Duties: 26**
- ❑ Pay Scale Adjustment: 20**
- ❑ Longevity: 18**
- ❑ Merit: 14**
- ❑ Overtime: 11**
- ❑ Professional Growth: 4**



Normal Retirement Calculation

TOTAL CREDITED SERVICE

X

GRADED MULTIPLIER

X

AVERAGE MONTHLY
COMPENSATION

=

RETIREMENT BENEFIT

The period of employment during which contributions are made to the ASRS plus any service purchase that is credited to the account.

A percentage set by statute. Based on total years of service at retirement.

Highest 36 or 60 consecutive months of salary averaged.

Paid on a monthly basis for the member's lifetime.



Compensation

- ☐ **Total regular salary or wages paid, including overtime, and any other payment for services rendered.**
- ☐ **Final payments of regular salary and wages as above paid at the time of termination.**
- ☐ **Amounts paid to a member on administrative, vacation, sick, or other paid leave status.**
- ☐ **Mandatory amounts paid under an employer policy to reduce the member's accrued annual, sick or general leave balance.***
- ☐ **Amounts paid for compensatory time or holiday pay.***
- ☐ **Amounts subject to deferred compensation.**

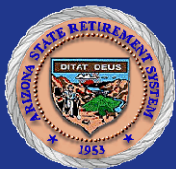
***Other than at termination**



A Conceptual Definition of Salary Spiking

- ❑ Salary increases in years preceding retirement, used for determining pension benefits, and not associated with career progression or merit increases.
 - Overtime uncharacteristic of salary history.
 - Dual employment.*
 - Early retirement incentive programs (ERP).*
 - Negotiated increases to delay retirement or increase Final Average Salary (FAS).

* Recommended remedies adopted in previous legislation.



ASRS Anti-Spiking Initiatives

ASRS Cost Savings Initiatives Estimated as of June 30, 2010, in Millions of Dollars

Action	Calendar Year Proposed	Calendar Year Adopted	Reduction in Total Contribution Rate*	Annual Reduction in Total Contribution Amount	Present Value of Savings on Closed Group Basis		Present Value of Savings on Open Group (No Growth**) Basis	
					Past	Future	Past	Future
Reimbursements for early retirement incentives	2003	2004	0.18%	\$16.96	\$140.98	\$205.14	\$140.98	\$330.27
Require 20/20 Rule for dual employment situations	2009	2009	0.04%	\$3.49	\$4.24	\$51.39	\$4.24	\$51.39
Replace 36-month average salary with 60-month average	2006	2010	0.25%	\$23.55		\$303.29		\$303.29
sub-total, past and future			0.47%	\$44.00	\$145.22	\$559.82	\$145.22	\$684.95
Grand Total, savings emerging in experience			0.47%	\$44.00	\$705.04		\$830.17	

*These changes to the total contribution rate are multiplied by current payroll to give annual savings amounts in the next column. The annual savings amounts are then converted to the present values shown in the last two columns. These values include both accumulated past savings and estimated future savings. Actuarial Valuation Basis savings are reductions to past service liabilities, i.e., capitalizations of the annual savings amounts over 30 years.

** No growth scenario means that the projection maintains the size and age distribution characteristics of the current active population.

Costs above give the combined effect of each bill -- if a bill changes three plan provisions, the cost of each reflects the adoption of the other two provisions.

Some of these changes will not be reflected in their entirety in the current valuation report, but will be captured in future reports as actuarial gains.

Explanation of Cost Reduction Initiatives

Some ASRS employers have offered their employees incentives to retire early. These incentives can increase ASRS liabilities. By legislative action, future incentives will be funded by the employers who offer them.

2009 Legislation requires a member to meet membership (20/20 Rule) in ASRS before contributing to a second employer, subject to a grandfathering clause.

Retirement benefits are calculated based on an average of the member's highest 36 months of salary in the 10 years prior to retirement. 2010 Legislation substitutes a 60 month average for members hired on or after July 1, 2011.